



CITY OF VANCOUVER

***Report of the
Municipal Taxation Review Commission
March 1989***

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Members of the Commission:

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SECTION 1: INTRODUCTION

Real property assessments in British Columbia are prepared by the British Columbia Assessment Authority, a quasi-independent body established under Provincial legislation. The Assessment Roll is on a full market value basis and is published in the Fall, every second year, with the assessed values being the market values as of July 1 of that year.

In the Fall of 1988, the Authority published the Assessment Roll for use in the taxation years 1989 and 1990. The values were the market values current as of July 1, 1988. In the period since the publishing of the previous assessment roll, with values as of July 1, 1986, the real estate market in the City of Vancouver had been extremely active, with residential values rising an **average** of 35.5% across the City, but quite unevenly in various neighbourhoods. The net effect was that, on average, the property values in the east half of the City rose much less than the average, and the property values in the west side of the City rose much more than the average, presaging a significant transfer of tax burden from the east side of the City to the west side of the City.

Under a market value assessment and taxation system, that taxes people on the basis of their wealth as measured by the value of their house, this transfer of taxation is legitimate, inasmuch as those owners with higher than average assessment increases have gained an increment in their wealth, whether or not they wish to turn it into a **realized** gain at this time.

What is not seen as fair is the **sudden** blow to taxpayers in one year, with increases in assessment in some cases reaching 100% (see SECTION 4). The translation of the assessment rise into 1989 property taxes is particularly hard on those taxpayers whose income (ability to pay) has not risen commensurately, or who have not the slightest desire to realize the implied capital gain.

Recognizing the problem, Vancouver City Council on October 18, 1988 approved the establishment of a Municipal Taxation Review Commission consisting of three members, with the following terms of reference:

1. To survey property tax systems in other cities.
2. To solicit views from other municipalities in B.C.
3. To invite submissions from individuals and organizations and the BC Assessment Authority.
4. To hold Public Hearings.
5. To recommend to City Council by February 28, 1989, what changes in the assessment and taxation systems the City should propose to the Provincial Government for legislative consideration in the Spring of 1989.

The last point is in recognition of the fact that any changes will require the approval of the Provincial Government and the passage of appropriate legislation.

On December 13, 1988, City Council appointed the three member Commission, consisting of:

Peter D. Leckie, Chairman, former Director of Finance for the City.

George Oikawa, Senior Vice President of Cumberland Group.

Professor Brahm Wiesman, School of Community and Regional Planning, University of British Columbia.

SECTION 2: SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

A: Assessment and Taxation (Section 10)

The Commission is of the opinion that the most appropriate system on which to base the property tax is the current market value system. No jurisdiction of which we are aware has improved on this system, either with modifications of assessed value, or by using any other base.

Alternatives suggested to the Commission did not prove fruitful.

The Commission has made the value judgment that equity has been breached in the sense that the steep 1989 increases in property tax flowing from the effects of the active and rising real estate market is unfair at the higher levels of increase. After considering the alternatives, we recommend a capping mechanism, in preference to an averaging mechanism. The details are found in Section 10:D.

RECOMMENDATION I:

That City Council seek amendments to the Vancouver Charter necessary to implement a "taxable value" capping mechanism as described in this report, applicable to all the taxes levied by the City for itself and for other taxing bodies, to be implemented, when needed, by bylaw.

Generally we believe that the business and other class (commercial) should not be protected from the application of market forces. We therefore do not believe the capping mechanism should be applied to the business and other class. However, we recognize that Council may very well wish to apply the protective mechanism to the commercial class for the same reason as Council would apply it to the residential class-- the unfairness of very large increases in one year.

B: Other Revenue Alternatives (Section 11)

Gaining access to the primary revenue sources of the senior governments, while

perhaps desirable, is not easily accomplished, and is therefore of little use in the present circumstances.

Possible new forms of taxation, to control market forces as much as to obtain revenue, can be considered by Council. They are discussed in SECTION 11:C:

In reviewing the City's revenue structure, several suggestions arise, and one recommendation.

RECOMMENDATION 2:

That Council consider the establishment of the sewers function as a full cost recovery utility, with the costs distributed through a system of user charges.

C: BC Assessment Authority (Section 7)

The Commission has reviewed the status of the BC Assessment Authority and we are of the opinion that the valuation process should revert to an annual basis, with the assessment roll being produced annually, and further, that the Authority should be controlled by the local taxing bodies in the Province.

RECOMMENDATION 3:

That Council recommend to the Provincial Government that the BC Assessment Authority revert to re-assessing property annually and producing an up to date Assessment Roll annually. Further, that Council seek the support of the UBCM for this recommendation.

RECOMMENDATION 4:

That Council seek the support of the UBCM and the BC School Trustees Association for a proposal to the Provincial Government that they relinquish control of the BC Assessment Authority to a Board appointed by the local taxing authorities, and that the Province exercise ultimate control only through legislation.

In addition, the Commission considered the question of commercial/industrial tenants receiving copies of assessment notices as most are explicitly responsible for property taxes under the terms of their lease.

RECOMMENDATION 5:

That City Council recommend to the Provincial Government that commercial/industrial landlords be required to provide tenants with the assessment information for the property, to allow the tenants an opportunity to appeal the assessment.

SECTION 3: THE OBJECTIVES OF THE COMMISSION

The terms of reference approved by City Council lead to the formulation of the objectives of the Commission, with the explicit instruction "To recommend to City Council . . . what changes in the assessment and taxation systems the City should propose to the Provincial Government for legislative consideration in the Spring of 1989."

The Commission refined its objectives as follows:

1. Contact all jurisdictions we can reasonably access and perform a comprehensive research of government reports and related literature on property assessment and taxation.
2. Hold public meetings to obtain a clear understanding of what the public is saying; in addition, use the public meetings to inform the public as much as possible.
3. Examine whether the market value system of property assessment is the best or if there is something better; why is it so.
4. Consider the question (concept) of equity, in theory, and, more importantly, in practical and political terms. How well is equity served by the market value system of property assessment or any other system that might reasonably replace it.
5. If equity is served by ameliorating the 1989 assessment roll/property tax situation, then what adjusting formulae might be appropriate. After developing possibilities, test them carefully, as they must be both equitable and workable in varying future circumstances (recognizing that while real estate markets go up, they also go down). Advise Council on the implementation of any solutions

recommended by the Commission.

6. Consider whether the City can take other actions that reduce dependence on the property tax; that is, are there other revenue sources that are reasonably achievable by the City.

7. Review the BC Assessment Authority and determine if recommendations are warranted.

8. Consider whether there are any actions the Commission can recommend to reduce the volatility of the residential real estate market in the City.

SECTION 4: THE NATURE OF THE PROBLEM

A: Introduction

Market value based assessment systems, if kept current, respond to changes in the marketplace, with those changes then being reflected in the property tax levies based on the assessed values. If the market treats the community in a homogeneous manner, then no taxation distribution problem flows from the action of the market. However, if the effect of the real estate market is to change values differentially within the community, then some property owner's taxes are going to change more or less than others. If this differential effect is relatively minor, it does not present a problem. If the differential is great, as has happened in the City of Vancouver for the 1989 taxation year, then the problem can be severe.

The objective of a market value based assessment system is to tax people for the support of their community on the basis of their wealth as measured by the value of their property. The property tax is a necessary alternative for local government in view of the fact that the senior governments are unwilling to share those taxes that in theory reflect 'ability to pay', such as the income tax. The fact that the property owner's ability to pay is imperfectly measured by the value of their property is not something that the municipalities have any power to address.

Nevertheless, in North America generally, the [current] market value based assessment system for real property taxation is perceived as the fairest. Many jurisdictions that have allowed their real property assessment systems to deteriorate are trying to move to a current market value based system to correct the serious inequities that have developed over time.

It is the Commission's understanding that only one other municipality in Greater Vancouver, specifically West Vancouver, is faced with Vancouver's pattern of extremely uneven assessed value increases. In the balance of the municipalities, the increases, while in many cases large, have been relatively even, and therefore easily dealt with

by reducing the tax rates.

It is important to understand that in British Columbia, and therefore in Vancouver, property is segregated into a number of classes, as follows:

- Class 1 Residential
- Class 2 Utilities
- Class 3 Unmanaged Forest Land
- Class 4 Major Industry
- Class 5 Light Industry
- Class 6 Business and Other
- Class 7 Managed Forest Land
- Class 8 Recreational Property/Non-Profit Organizations
- Class 9 Farms

This structure allows municipal councils to control the distribution of the property tax burden **between** classes by the use of differential tax rates. The fear in other jurisdictions that this power would be abused has not been a problem in British Columbia in the years since the system was put in place by the Province in 1983.

B. The Pattern of the 1989 Assessment Roll

The current problem in Vancouver affects both the Residential and the Business and Other (commercial) classes. The following assessment information is prior to the appeal decisions of the Court of Revision, and therefore the 1989 Assessment Roll at this point in time is called the "Consolidated Roll"; following the Court of Revision decisions, it will be called the "Authenticated Roll".

COMPARISON OF 1988 AND 1989 ASSESSED VALUES

Class	Description	1988 Authenticated Roll (\$,000)	1989 Consolidated Roll (\$,000)	Includes Market Value Increase (\$,000)	Market Value Increase as Percent (%)
1	Residential	16,151,361	22,169,124	5,734,720	35.5
2	Utilities	121,207	106,327	- 3,336	-3.1
4	Major Industry	134,793	132,045	- 3,710	-2.7
5	Light Industry	131,008	125,692	3,649	2.8
6	Business/Other	6,618,520	8,109,049	1,400,959	21.2
8	Seasonal/Recr.	47,114	56,566	8,696	18.2
9	Farm	94	96	2	2.0

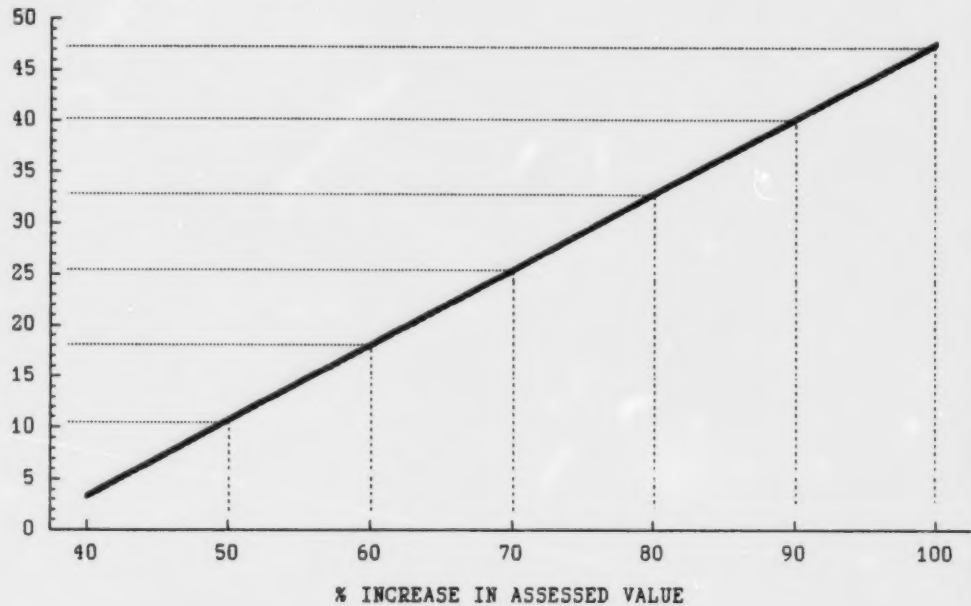
C: The Impact on Residential Property

In the City as a whole, 61,690 residential properties had a market value increase below the average, and 38,675 residential properties had an increase above the average. Those properties with an assessment increase above the average will face a tax increase caused by that factor, before any consideration of a tax increase necessitated by inflation. The tax increase impacting those with an above average (35.5%) assessed value increase is depicted in Figure 1 below. This graph has been calculated using the 1988 tax rates of all the taxing authorities levying taxes on the bill sent out by the City of Vancouver.

The point to note is that property owners need only be concerned about a property tax increase related to the assessed value increase if their assessment rose more than 35.5%. To avoid being misleading it must be re-iterated that this graph does not consider the tax increase that will occur in 1989 as the various taxing authorities deal with inflationary or other cost increases.

RELATIONSHIP OF ASSESSMENT INCREASE
TO TAX INCREASE - 1989 OVER 1988
City of Vancouver- Residential Properties

% INCREASE IN 1989 TOTAL TAXES



VVHC 7/88/89

1989 taxes at the equivalent level of 1988,
therefore inflation for 1989 not included.

Figure 1

The rate of increase in assessed values for the 38,675 properties with above average increases was as follows:

**Residential Property
Assessment Increase Above the 35.5% Average Increase
1989 Over 1988**

Percentage Increase	Number of Properties
(Average increase 35.5%)	
36-45	14,554
46-55	11,024
56-70	10,042
71-85	2,592
86 and over	463

The next graph (Figure 2) shows the information in the above table combined with the tax impact information in Figure 1 on the previous page, in order to illustrate the proportion of total residential properties in each sector of assessment increase, and the tax impact on that group of properties— that is, the tax increase or decrease caused by the assessment change.

On average, within the residential class, single family residences increased the most, with rental properties (mostly multi-family apartments, etc.) increasing slightly less, and strata title residences (apartments and rowhouses) increasing very little in the two year period.

With few exceptions, the above average increases are concentrated on the West side of the City, west of Main Street and generally south of 14th Avenue, with a pocket in the north-west corner of the City. The sector with the highest rates of increase on average, within that larger description, is the area south of 33rd Avenue, between Arbutus and Oak Streets, as far south as 67th Avenue, plus an isolated sector bounded by 3rd Avenue to Broadway and Balaclava to Larch Streets.

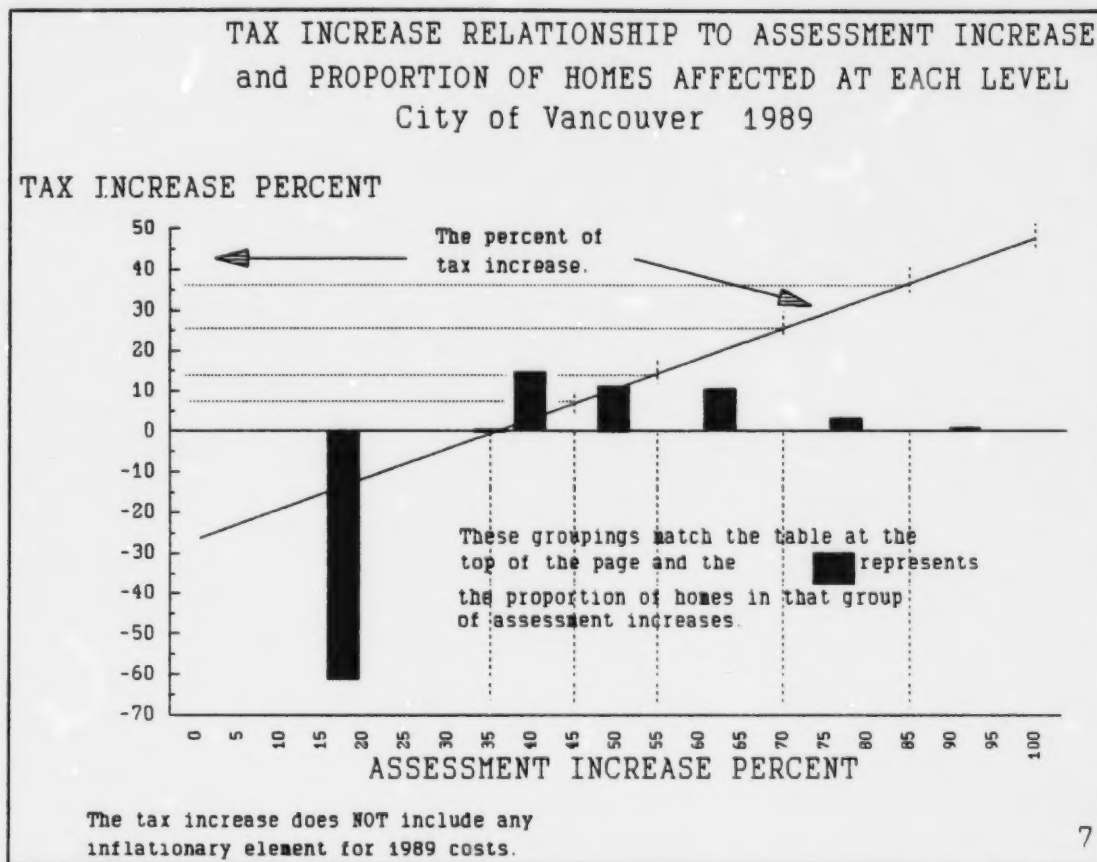


Figure 2

D: The Impact On Commercial Property

The pattern of the increases in the Business and Other Class (commercial) is not as simple as in the residential class. In general, the downtown commercial section west of Burrard increased slightly more than average, the downtown section east of Burrard less than average; strip commercial outside the downtown and generally west of Main Street increased more than average with the Kerrisdale shopping area having the highest average rate of increase in the City.

The BC Assessment Authority pointed out that some small commercial areas had substantial increases, such as the Robson Street shopping area and parts of Chinatown.

As is the case for the residential class, the increases are spread very unevenly among properties within the commercial class. The average increase for the class, caused by market value increase, was 21.2%. Therefore, those commercial properties with an assessed value increase below 21.2% could expect a tax decrease and those with an increase above 21.2% could expect a tax increase, before consideration of any tax increase to cover inflation.

E: The Assessment Cycle

Contributing to the size of the assessment increases is the fact that the Assessment Authority now reassesses properties every second year. This resulted in property owners having to deal with two years of market impact all at once. This subject is covered at greater length in the section of this report on the BC Assessment Authority, where we have several recommendations.

F: Speculation and Foreign Money

Quite possibly the strongest feelings at the public hearing were about the perceived speculation that is pushing the real estate market, and the foreign money that is seen to be fueling the speculation. The point was made again and again that government should put a stop to both the speculation in residential real estate and the foreign purchase of our property.

Vancouver citizens faced with high assessment increases which they see as a result of foreign purchases are uncomfortable and are therefore exerting political pressure. This is a problem that politicians at all levels must address.

There is some unfairness in the situation. There are countries such as Japan that do not allow foreigners to buy residential property and therefore the legitimate question is asked as to why we should allow foreigners to buy homes here. Various forms of constraints on foreign ownership of property are common in the World. In Canada, the Provinces of Alberta, Quebec, and PEI restrict foreign ownership of land in various relatively minor ways.

There are a number of mechanisms that can be used to moderate the situation. They are discussed in SECTION 11: DETAILED CONCLUSIONS AND RECOMMENDATIONS (Part 2).

SECTION 5: THE PROCESS FOLLOWED BY THE COMMISSION

City Council appointed the members of the Commission on December 13, 1988 but expressed the desire that the Commission not commence its work until it had met with the Finance and Priorities Committee of Council to ascertain Council's objectives and concerns. That meeting occurred on January 12, 1989.

Prior to the meeting with Council the Commission was able to accomplish some preparatory work, such as the preparation of the public meeting advertisement, and the letter sent to all those who had written to the Mayor, Council members, and civic officials. A general information document for those wishing more information on assessment and taxation was prepared. The City Clerk confirmed the locations and times for the public meetings.

Following the meeting with Council the advertisements were placed in the major dailies and the neighbourhood and ethnic papers, and the letter sent to people advising them of the public meetings.

The public meetings were held as follows:

Point Grey High School	Monday January 30	7:00pm
Trout Lake Community Centre	Thursday February 2	7:00pm
Sir Winston Churchill High School	Monday February 6	7:00pm
City Hall Council Chambers	Thursday February 9	7:00pm

Citizens could either phone the City Clerk's office and state that they wished to address the Commission, or could register at the door. Anyone wishing to speak could take more or less as long as they wished. Eleven people addressed the Commission at Point Grey High School, nine at Trout Lake Community Centre, eleven at Sir Winston Churchill School, and nine at City Hall. In addition to the speakers who formally addressed the Commission, there was also worthwhile open discussion at the meetings.

Concurrently the Commission did the research necessary to determine the experience in other jurisdictions, and conducted an extensive bibliographical search. Knowledgeable people in Los Angeles, Edmonton, Regina, Winnipeg, Toronto, and Washington, D.C. were consulted. Much literature was obtained from the Office of the Director of Finance in City Hall, the Vancouver Public Library, the UBC Library, ICURR a national bibliographic reference source in Toronto, and a commercial search service. Material was obtained from the people in the above noted cities.

The Executive Director of the Union of BC Municipalities was asked if the UBCM wished to make a presentation or offer any opinions to the Commission. This was declined in recognition of the fact that the UBCM's concerns will probably not arise until it has seen what recommendations Council may make to the Provincial Government. The Greater Vancouver Regional District also declined as it is in much the same position as the UBCM. Selected other municipalities around Vancouver were asked if they wished to address their concerns to the Commission, but only the Municipalities of Surrey and West Vancouver accepted. It is felt that other parties will wait to see what the Commission recommends to Council and what Council may recommend to the Province.

The Commission took the position that time is of the essence. We have therefore not commented on all of the property tax questions or ideas raised at the public meetings, where they were perhaps a bit removed from the most immediate concerns of Council. In addition, the Commission did not travel to any other jurisdictions, both because of time constraints and because it appeared that we could get the information we needed by other means.

SECTION 6: THE LEGAL BASIS FOR ASSESSMENT AND TAXATION IN THE CITY¹

Although there are thousands of reported legal cases dealing with assessment and taxation matters, such cases are mainly concerned with statutory interpretation because the law relating to assessment and taxation is primarily statute law. In other words, there is no common law right of taxation, and therefore the validity of any tax, or assessment for that matter, depends wholly on the statutory provisions purporting to authorize it.

In the case of the City of Vancouver the two fundamental statutory provisions are the Assessment Act and the Vancouver Charter. For most of the City's history the Charter not only governed taxation matters but was also the statutory basis for the preparation of the assessment roll, although modified somewhat after 1953 by the Assessment Equalization Act. Virtually all the provisions in the Charter dealing with assessments were repealed in 1977. In the period between 1977 and the present there have been many amendments and transition provisions but the present situation is that virtually all assessment matters (with the notable exception of exemptions) are governed by the Assessment Act, and almost all taxation matters are governed by the Charter.

While the Assessment Act deals with the requirements and the contents of the assessment roll plus all the appeal provisions, by far the most important provisions deal with the valuation process for the purpose of determining the assessment of each parcel of property. The objective, and the duty of the Assessor in each case, is to determine "actual value". This can be relatively simple such as in the case of residential properties in an active market, or extremely difficult such as in the case of special purpose buildings. There are three levels of appeal to take care of any perceived error or inequity. There are several things such as pole lines, railway track, pipe lines and farm land which have an artificial "actual value" set by the Assessment Commissioner but overall these are not of great significance in Vancouver. These rates are set on a Province-wide basis.

One other important provision, particularly for the City's purposes, is the power under the Act for the Lieutenant Governor in Council to "prescribe classes of property for the purpose of administering property taxes". This provision is the basis of, and fundamental to, the City's ability to utilize differential tax rates.

With respect to tax collection, it should be noted that in addition to the City's taxes for general municipal purposes, the City also collects taxes for: School District 39, the Province of British Columbia (non-residential school tax), Greater Vancouver Regional District, Regional Hospital District, BC Assessment Authority, Municipal Finance Authority, and BC Transit. The foregoing entities are governed by specific legislation which in each case obliges the City to collect whatever amount is specified, and the City has no option or decision making power with respect to the impact of such taxes.

The Charter authorizes the general purpose taxation of all non-exempt real property in the City. As soon as the estimates for the year (budget) have been adopted by Council, the City is obliged to pass a rating bylaw. This bylaw imposes a rate of levy on each parcel of property shown as taxable on the assessment roll prepared pursuant to the Assessment Act. Each class of property has a separate rate. The rate of levy is applied to the assessed value shown on the roll. In the aggregate the rate of levy multiplied by the total of the net taxable value shown on the assessment roll must raise by way of taxes a sum sufficient to meet the City's budget requirements.

The variable tax rate system which came into effect in 1983 obliges the City to impose a rate for each property class. The Order in Council presently specifies nine classes and the City imposes rates for taxes on seven of those nine classes. This new system has given Council a great deal of flexibility to deal with the impact of changing market forces in our taxation structure. It is not flexible enough, however, to permit Council to alleviate the situation that has arisen in the last two years, namely, substantial market changes within classes. Differential rates within a class are probably impossible in any event, but there is no compelling reason why the classes themselves could not be narrowed or refined.

Given the statutory basis of assessment and taxation in the Province, then almost certainly any changes to the assessment and taxation systems will require statutory changes, and it is evident that changes to the Charter will be easier to achieve than changes to the Assessment Act, as the latter has Province-wide application.

SECTION 7: THE BC ASSESSMENT AUTHORITY

A: Background

The BC Assessment Authority was established by Provincial legislation in 1974 in recognition of the fact that real property assessing for taxation purposes was not being performed in a satisfactory manner except in the larger cities. The Authority is responsible for the assessment of all property in the Province.

With the Assessment Amendment Act of 1984, the long established practice of annual assessing and assessment rolls came to an end and a two year cycle was initiated. In addition, the effective date of valuation for the roll, and the date by which it must be prepared, were changed to July 1 and September 30 respectively to reflect practical realities.

The Authority is managed by a Board of Directors appointed by the Provincial Cabinet. It is staffed by competent and well-trained personnel. The Commission is of the opinion that it is probably one of the finest assessment administrations in North America.

B: The Effect of the Assessment Cycle, For 1989

A factor contributing to the shock of the 1989 assessment increases is the fact that the Assessment Authority revalues property every second year, rather than annually as was the case prior to the Provincial Government decision to reduce the budget of the Authority. The Commission is not aware of how much of the market increase occurred in the first of the two years and how much in the second, though a representative of the BC Assessment Authority does feel that the increase was slightly greater in the second.

Equally, we do not know to what extent the assessment function has been degraded by the staff losses that resulted from the budget cuts and the current need to spend

approximately one quarter of staff resources in Court of Revision and Board of Appeal activities.

It is extremely important to the local taxing authorities in British Columbia that the taxpaying public have trust and confidence in the body that assesses their property for taxation. Lack of trust brings the taxation system, and therefore the taxing bodies, into disrepute. The local taxing systems in much of Canada are disreputable and known to be seriously inequitable.

Performing the assessment function in a high quality manner has distinct benefits for society, and the cost is not very great compared to the revenues raised by the property tax systems.

RECOMMENDATION:

That Council recommend to the Provincial Government that the BC Assessment Authority revert to re-assessing property annually and producing an up to date Assessment Roll annually. Further, that Council seek the support of the UBCM for this recommendation.

It is anticipated that this would increase the budget of the Authority by less than 25%.

C: Control of the Assessment Authority

The Assessment Authority is nominally an independent body established under Provincial legislation, with an appointed Board of Directors. Financing of the Authority comes primarily (78%) from a real property tax levied on the property in the Province, and secondly from a Provincial grant (20%). Most of the tax comes from the municipalities and some from the rural areas. The output of the Authority is largely used by the local taxing authorities of the province, such as the municipalities, school districts, regional districts, and hospital districts.

The Provincial Government clearly controls the Authority, through its appointment of the Board of Directors. This seems inappropriate given the source of the Authority's operating funds and the use made of its output, leaving aside the

political importance to local government of the proper functioning of the Authority.

RECOMMENDATION:

That Council seek the support of the Union of BC Municipalities and the BC School Trustees Association for a proposal to the Provincial Government that they relinquish control of the BC Assessment Authority to a Board appointed by the local taxing authorities, and that the Province exercise ultimate control only through legislation.

D: The Quality of Assessing in Vancouver

The quality of the assessing function is measured in two ways. The first is in the consistency across the City of the ratio of market value to assessed value. In a perfect market value system— (impossible of achievement in reality), the ratio would be a median of 100% across the valuation districts of the City. In reality one seeks a close clustering of the district ratios at a level reasonably close to 100%. This clustering is the most important aspect so that properties are not assessed at different valuation levels, as this translates directly into inequities in taxation.

The second measure is the quality of the median. This is measured by the coefficient of dispersion, which looks at how close all the individual properties are to the median. The literature indicates that a coefficient of dispersion of 10 is excellent.

The Assessment Authority was asked to provide the median sales ratios and the coefficients of dispersion for the neighbourhoods in Vancouver, and complied with the Commission's request. The information from the Authority is included as Appendix 3. The Commission lacks the resources to validate the information.

E: Provision of Assessment Notices To Tenants

The provision of assessment notices to tenants is not a new question. After the 1982 massive shift of taxes from the residential class to the commercial class, it was recommended that commercial tenants should receive copies of the assessment notices so that they could, if they wished, have an opportunity to appeal the assessments. In most

cases there is little incentive for the owner of commercial property leased to tenants to appeal the assessment, as under most leases today property taxes are passed on to the tenants. The problem is of course that if the tenant does not see the assessment notice the tenant is unlikely to consider an appeal.

For the Assessment Authority to try to keep track of tenants and send them copies of assessment notices is probably administratively unreasonable and costly. If it is felt that tenants should have copies then it is much more reasonable that Provincial legislation be amended to include a requirement that landlords advise tenants of the contents of assessment notices, with sufficient time for the tenants to initiate an appeal.

The above refers to commercial tenants. One speaker at the public meetings also suggested that residential tenants should receive copies of the assessment notices. This could be done but would be ineffective unless the landlord could clearly indicate just how this might translate into a rent increase. There is thus likely to be significant problems for tenants in understanding the assessment information. The situation with the commercial tenants is much clearer, in that the taxes are explicitly passed on to the tenant and not buried in the rent. In addition, the rate of taxation on the commercial class is much higher than on the residential class and therefore of greater significance.

RECOMMENDATION:

That City Council recommend to the Provincial Government that commercial/industrial landlords be required to provide tenants with the assessment information for the property, to allow the tenants an opportunity to appeal the assessment.

SECTION 8: CITY OF VANCOUVER— REAL PROPERTY TAXATION

Inasmuch as the real property tax is the sole taxation source available to the City, successive Councils have tried to protect the acceptability of the tax, by being sensitive to its impact on taxpayers, and the fairness of its distribution. Based on examination of other real property taxation systems across Canada and in the USA, it is our opinion that the present system in Vancouver is "fairer" in its distribution aspects than any other real property tax in Canada. It is important to recognize that the Government of the Province can also take a great deal of the credit, for adopting the market value system, and implementing the differential tax rate system. Both of these actions seem to be difficult to accomplish in other provinces even though they desire to do so.

Council's taxation policy decisions must be within the legal framework established by the Provincial government. The Province can tightly constrict the policy making ability of the municipality or conversely pass much responsibility and power on to it. If the responsibility or power are abused then they will be lost as the Provincial Government takes them back. In 1983 the Province transferred a very significant policy making responsibility to the municipalities, namely the ability to use different rates of taxation for each class of property. There were real concerns raised at the time that the municipalities would abuse this power and arbitrarily transfer the burden of taxation to the classes with the least power (votes). The Province at the time was considering controls to prevent this but eventually decided not to do so. The municipalities so far appear not to have abused the power, thereby confirming the trust the Province placed in them.

Vancouver's Council made a deliberate policy decision at the time, that as the distribution of the burden of taxation between the classes of property seemed to be reasonably acceptable in the community, it was by definition deemed to be equitable. Council further decided that they would not shift the burden from one class to another without good reason. Council does adjust the share of the property tax carried by each

class as the content changes, in other words, if one class has proportionately more new construction in one year than another class, then its share of the total burden will increase to reflect this.

The major advantage of the differential rates by class is that they prevent the shifting of tax burden from one class to another when the market impacts differently on the classes of property, as frequently occurs. What the differential rate structure cannot do is deal with shifts of taxation within a class. To exercise a policy decision to do something about this situation, Council requires additional power, in the form of Provincial legislation.

An important aspect of a good taxation system is the idea of accountability. It means that taxation policy must be explicit and out in the open where not only the legislators (Council) can see it but so can the taxpaying public. It is far too easy to deliberately, or in ignorance, hide distributive aspects of taxation policy decisions in the assessment aspects of the overall system. This is a major problem in many jurisdictions in Canada where the distributive aspects of the property tax have become distorted and inequitable through neglect and the passage of time, to the point where it is extremely difficult to correct them.

It is also reasonable to consider that over time the reasons for past policy decisions may change, or the environment may change, thus indicating a need for policy re-consideration. One of the presentations to the Commission took this position on the distribution of the general purposes property tax amongst the different classes of property; namely that the Business and Other Class is unfairly burdened with taxation compared to the residential class. While felt by the Commission to be somewhat outside its immediate terms of reference, especially in view of the time constraints, it is an important matter and should be considered by Council. To properly analyse the question is beyond the resources of the Commission.

SECTION 9: THE EXPERIENCE IN OTHER JURISDICTIONS

The Commission has conducted a very wide search looking for useful ideas and experience in other jurisdictions. This section presents selected examples. All support the concept of using the current market value assessment base.

A: The California Experience²

In 1978, voters in California approved Proposition 13. The effect of this proposition, enacted into an amendment to the State Constitution, was to cap property tax rates at 1% of assessed valuation, roll back assessed valuations to their 1975-76 levels, and permit a maximum increase in assessed valuation of 2% in any year thereafter, unless the property changes hands, at which time it is appraised at full market value, and then comes under the 2% rule. New construction is appraised at full market value and is then subject to the 2% rule, until it changes hands. In other words the assessed values can rise no faster than 2% per year so long as the owner does not sell the property, no matter how much the market rises.

The purpose of the amendment to the State Constitution was to control local government spending and to roll back property taxes. The effects in summary terms have been to heavily increase the intrusion of the State government into the local level, both in a fiscal sense and a dependency sense, particularly in education and at the County government levels. For their part, the cities have maintained their independence by replacing the lost property tax revenues with a range of other taxes and charges.

Most importantly, any sense of equity in the property tax has been lost. Equity, while often difficult to achieve, must be a primary aim of any taxation system. Experience in many jurisdictions shows that once inequity is built into a taxation system, it is extremely difficult to make the changes necessary to restore equity, because those who benefit from the inequity will suffer and be vociferous in their opposition to change. The California property tax system has become very inequitable and there is apparently no reasonably acceptable method for restoring equity.

Somewhere between one-third and one-half of the market value of property in the State of California escapes property taxation as a result of the effects of Proposition 13. The effective tax rates on property owners varies widely, with the tax burden on otherwise identical property owners often differing by a ratio of up to 10 or 20 to 1, depending on the length of ownership. The benefitters are those who have owned their property for a long time, often older people, and apparently the better off, and the losers are those who have to move for any reason and young first-time homebuyers.

B: The Ontario and Metropolitan Toronto Situation

The current situation in Ontario dates back to 1967³ when it was first recommended that property be assessed at market value. Since that time there have been many studies and reports dealing with reform of the real property assessment and taxation structures. The Ontario/Metropolitan Toronto situation is an illuminating example of the political difficulty of correcting a defective and inequitable property tax situation.

Assessment/tax reform has occurred outside Metro Toronto, in that municipalities can use Section 63 of the Ontario Assessment Act to effect market value reassessment within classes of property, provided this does not create any increase in total taxation within that class, and does not shift taxation between classes. In other words, it improves equity within a class, which is important, but does not deal with other problems in the taxation system. As of March 1988, 655 of the 835 municipalities in Ontario have used this method.

Metro Toronto has been unable to resolve the dilemma of the tax shifts that would occur within classes of property, between classes of property, and between municipalities within Metro, in order to get the property tax system on a more equitable basis. As an indicator of how out of date the Metro situation is, a 1986 Metro Executive Committee report⁴ notes that all properties in Metro Toronto were last reassessed in 1953, using 1940 property values. Currently, for a number of historical reasons, properties across Metro Toronto are unevenly assessed even on that basis, with very substantial inequities in taxation resulting.

In 1988, Metro Toronto Council considered the latest report⁵ on the matter. This report recommends that:

"(1) a Metropolitan-wide Section 63 [allows market value re-assessment within a property class] be used as the method of implementation of reassessment in Metropolitan Toronto;

(2) reassessment occur in 1989 and be based on 1984 market values;

(3) municipalities be permitted flexibility in terms of phase-in mechanisms and local taxation alternatives, including the option for the use of variable mill rates*, to minimize the impact on low income households and to eliminate any possibility of neighbourhood dislocation subject to the following Metropolitan-wide phase-in approach:

(a) cap all residential property tax increases at 25 per cent;

(b) permit all residential property tax decreases to occur;

(c) phase-in commercial/industrial tax decreases in order to finance residential increases over 25 per cent;

(d) at the time of sale, remove the 25 per cent cap on residential property tax increases and move to full taxation;

(4) an assessment base based on 1984 market values, for a ten year period be maintained."

As of March 1988 four of the six Metropolitan Councils had approved these recommendations, but the two largest cities, Toronto and North York, were strongly opposed. As of February 1989, the deadlock persists with the Province of Ontario

* BC has had variable tax rates by class of property since 1983 and even though there were fears that it would be abused, in the sense of Councils shifting taxes, for example, from residential property onto commercial property, that has not happened. Variable mill rates by class of property would have solved at least one major problem in Ontario, but there have been strong fears that Councils would improperly shift taxes between classes. The opposition has stopped consideration of the variable mill rates and it remains to be seen if this latest effort to implement it will be approved.

apparently unwilling to study the alternative proposals of the Cities of Toronto and North York, and these two cities, because of voting power, being able to block action at the Metro level. It is thought that the matter will be coming before Metro Council again this Spring.

C: Ottawa, Ontario⁶

Ottawa went through a re-assessment, using 1980 market values, with the resulting changes in taxes appearing for the first time on the 1987 tax bill. The change caused significant increases in some tax bills, particularly in the core wards. A brief from a Citizens Committee states that the increases are inequitable but does not say why and ignores the inequity built into the previous distribution of taxes by years of neglect. It is another example of the difficulties faced in trying to correct a taxation system badly distorted by time and urban change.

D: Winnipeg, Manitoba

A major study⁷ in 1984 pointed out the deficiencies and extreme inequities of the assessment situation in Winnipeg, and for that matter, generally in the Province. It stated that Winnipeg had not fulfilled its statutory obligations under the City of Winnipeg Act to reassess property every three years. The last reassessment occurred in 1962 based on 1949-50 values (or 75% of 1957 values). The urban structure had changed substantially since that time, invalidating the assessment pattern in effect more than 20 years ago, resulting in severe inequities in the distribution of the tax burden.

Since 1984, a reassessment was done using 1975 values, effective for the 1987 taxation year. The City moved to a differential tax rate structure by class of property similar to that used in BC in order to avoid the major shifts of taxation between classes that would have otherwise occurred because of the reassessment. There is now a province wide target to reassess the whole province for 1990, using 1985 market values.

E: Edmonton, Alberta

Provincial legislation requires that real property assessment be on the basis of

65% of the market value of land plus 65% of the replacement cost of improvements less depreciation. From 1979 to 1986 the values were based on 1977 market and cost conditions. 1987 was a year of general reassessment with values based on 1985. Provincial law allows the use of differential tax rates by class of property. Edmonton uses this and, interestingly, taxes multi-family rental residential property at a substantially higher rate than single family. This differential is being reduced as it has caused the owners of multi-family properties to turn their properties into condominiums.

F: Conclusions To Be Drawn From the Experience In Other Jurisdictions

The most important conclusion to be drawn from the experience in other jurisdictions is that it is a serious mistake to allow problems, usually inequities, in the system to become entrenched, or assessments to get out of date. If those benefitting from inequities are allowed to believe they are entitled to them because of the passage of time, it will, to put it mildly, be extremely difficult and politically unpleasant to reverse the situation and restore equity. This was nicely phrased by Bird and Slack:

"What subsequent discussion appears to have shown is that no one considers a provision that favours his interest to be an "inequity"; rather, existing favouritism, however "unfair" in terms of some abstract standard of justice, appears to be treated as a "right", to be abrogated only with full compensation, if at all."

Lastly, it is difficult for property owners to relate to out of date assessments and determine if they have grounds for appeal. This is discussed elsewhere in our report (SECTION 10:C:).

SECTION 10: CONCLUSIONS AND RECOMMENDATIONS (Part 1)

A: Introduction

In view of the City's dependence on the property tax, there is a need to make certain that it is as equitable as possible, and therefore this section first considers the question of equity in detail. This includes the question of whether the market value system is the best base for the property tax, or whether some other base is superior. Finally, this section considers the possible solutions to the present assessment "shock" increase situation, and makes recommendations accordingly.

B: The Equity Question

There are many views on equity: equity is in the eye of the beholder; equity is a matter of opinion, not fact; equity is that my taxes should be lower. Inequity may result from accident or neglect, or from misunderstanding the complexity of the real world, perhaps coupled with inaction; or from adoption of a policy with unintended consequences. All of these thoughts are what makes "equity" so difficult to deal with.

The word 'equity' causes real problems for many people in grappling with the concept. The word is so value laden, with so many interpretations, that even deciding how to discuss it can be difficult. It is perhaps a help if the words 'fair' and 'unfair' are substituted for 'equitable' and 'inequitable'.

When Council makes a value judgment that some action needs to be taken about the 'excessive' assessment increases on some properties, because these translate into 'excessive' taxation increases, Council is saying that in their opinion, the 'excessive' increases are 'unfair'. That 'unfairness' is the whole reason for taking an action to ameliorate the situation. The 'unfairness' is not a matter of fact, it is a value judgment, with all the fuzziness that such judgments so often imply.

We believe it is important that there actually be recognition of the complexity and fuzziness of this judgment process and the difficult position City Council so often finds itself in, in making these judgments. We do not believe discussion of the concept can be avoided merely because it is difficult.

To put the tax system into perspective, it is argued that in any taxation system, the distribution of the burden of taxation should always be a matter of policy, not of accident or neglect. That policy structure is the responsibility of the governing or legislative body. Determining equity in the distribution of the taxation burden is a matter of opinion, therefore policy, not a matter of fact. It follows from this concept that if City Council determines that the change in distribution of the property tax in 1989 within classes is not equitable when it is in excess of a certain defined level of increase, then Council can legitimately establish a policy to take corrective action if it is within its power to do so, or if not within its power, seek the necessary Charter amendments.

In addition, equity in taxation is often examined from the aspects of vertical and horizontal equity. Vertical equity implies that people who are in different economic circumstances will pay taxes that are different from each other in some systematic and rational sense. Horizontal equity requires that people who are in similar economic circumstances pay similar taxes. The real property tax does not meet the conditions for either vertical or horizontal equity, though it may sometimes circumstantially appear to do so.

The Commission had before it a submission from Professor Zane Spindler* of Simon Fraser University, who argues that market value based assessment and taxation is the most economically efficient and equitable system and should not be tampered with in any way. Professor Spindler is correct in economic theory, but political leaders must also

* He for example points out that a special reduction in property taxes for those who have experienced the greatest increase in the market value of their homes will, according to economic theory, further increase the value of those houses, while the transfer of this tax burden to those who have experienced a lesser increase in the value of their homes, will depress the value of these houses.

pay attention to the social implications of market forces. That is why we do not have an unfettered market economy or tax system. Politicians recognize this and adopt measures to prevent or correct the inappropriate effects of market forces.

It must also be recognized that many people truly do not care that their houses have risen steeply in value because they do not have any interest in selling and moving. In this sense the increase in their wealth is illusory. In many of these cases, the increase in wealth is not matched by any increase in income. It is also true however that to soften the blow for those receiving the large assessment increases means that those who's assessments increased less will have to pay more in taxes than otherwise.

The Commission's conclusion is that "equity" has been violated by the extreme assessment increases on some properties, and that it is appropriate to adopt a "circuit breaker" to soften the increase in taxes at least to the extent of spreading it over time.

C: The Market Value Assessment System

Many speakers at the public meetings, and in letters, blame the market value assessment system for the problem that translates into a sharp increase in taxes in 1989. In our view, the real estate market must carry the blame; the assessment system only reports it.

One of the problems facing anyone trying to develop a real property assessment system is the question-- "What are we trying to measure and for what purpose?". The purpose is-- "To provide local government with the funds necessary to pay for the services that we the citizens require of local government.". Therefore, the answer to the first part of the question starts by saying we are trying to measure how much money to take from individual taxpayers. If we are trying to be fair about measuring how much money to take from the taxpayer, then we are not interested in the age of the taxpayers house, or how long the taxpayer has lived in it. We are interested in the taxpayers income or ability to pay measured by wealth. Since the senior governments will not allow us to tax income, we really are reduced to thinking that perhaps we can

measure wealth by looking at what the taxpayer owns. However, the senior governments only allow us to look at real property that is owned. Hence the property tax, and the fact that regardless of the problems associated with it, the market value assessment system is the only way to equitably, across the spectrum of taxpayers, measure that wealth.

Some people wish to use size of land, and/or size of house. Others wish to use a poll tax, which is generally a flat rate tax per person and is terribly regressive. None of these stand up to analysis as satisfactory substitutes for the market value assessment system.

An extremely important aspect of the market value assessment system in BC is the fact that it is simple and it can be understood by every property owner. Every person being taxed has the right to understand the base on which they are being taxed, and has the right to argue about the correctness of that base. They also have the right to expect that the system is up to date and reasonably accurate.

A factor that is causing so many problems in other jurisdictions that are attempting to move to the market value real property assessment system is that the valuations are in many cases decades out of date, and impossible to understand. By allowing the assessed values to become so badly out of date and distorted, these jurisdictions find they have created (actually they have allowed them to develop through neglect) constituencies with major inequitable tax advantages that they are not willing to give up. Furthermore, under these circumstances, the only chance one has to appeal is to hire an expert.

Many jurisdictions, that either have had a market value reassessment or are striving for it, do not appear to be making any provision for keeping the assessments current. In fact, their reassessment generally seems to be to an out of date value, with a target that they will reassess again at some future date. This seems to reflect an unwillingness to put adequate resources into the assessment administration. Unfortunately, this whole process reproduces the problem of out of date assessments which automatically translates into inequitable assessments and taxation.

The Commission, after looking at other jurisdictions, and considering all the ideas presented to it, is of the firm opinion that the present market value assessment is the best system, and except for adopting annual assessments and assessment rolls, it should not be tampered with.

D: Recommended Changes To the Taxation System

1: The Options

The Commission is of the opinion that only three options are sensibly available. Further, the two that modify the tax calculation must act at the **taxation** level rather than the assessment level, and they must be kept as clean and simple as possible. The three options are as follows:

1. Do nothing and allow the tax increases to flow through as the market value assessment system has worked in the past.
2. Put a cap on the allowed percent increase (in excess of the average percent increase for the class) in current year taxable* value over the prior year taxable value.
3. Calculate the taxable value for the current year as the **average** of the assessed values for the current year and the two prior years.

In addition, certain other general rules would apply to options 2. and 3. These are:

1. If the improvements are substantially demolished and replaced by new improvements, or the property is rezoned, or the state and condition changes, the taxable value for the current year is brought up to the full assessed value that

* Taxable value is an artificial value resulting from the application of the capping or averaging formulae. The taxable value times the tax rate produces the amount of property tax.

the BC Assessment Authority determines for the property for the current year. If option 3 is used, the new value would have to replace the two prior years assessed values.

Staff will need to refine this rule with BCAA staff to deal with timing considerations.

2. If improvements are added to a property, the increase in assessed value determined by the BCAA is added to both the assessed value (as normally done by the BCAA) and to the prior year taxable value (in the City data base), or in the case of option 3, to the two prior years assessed values.

It is critical that any action chosen by Council be implemented in the Vancouver Charter, which requires Provincial legislation, but not Provincial approval for use in the rest of the Province. In addition, if at all possible, the City should be allowed to apply the formula to all the taxes the City levies. The argument here is that the effect on the other taxing bodies is completely neutral.

2: Discussion Regarding Option 1— No Change

The Commission, having decided that in its opinion an inequity exists if no action is taken under the extreme 1989 conditions, does not recommend this option. Further discussion is not necessary here as it is found in other parts of this report.

3: Discussion Regarding Option 2— A Cap on the Increase in "Taxable Value"

The Commission has come to the conclusion that this option is preferable to Option 3 (Averaging), for the reasons that it is less interventionist, it can be allowed to disappear in a period of market stability, it is more controllable by Council at the detail level, and it is less complex administratively. By comparison, the averaging option, once implemented, would be difficult to eliminate. The point is that keeping any taxation system as clean, simple, and easy to understand as possible for the taxpayer is a primary aim and if a modifying system such as that proposed here is implemented, then when it is no longer needed, it should be eliminated from the structure. If the capping mechanism legal structure remained in place after it had served its current

(and next several years purposes), but was "turned off", then it could be "turned on" again should the need arise in the future.

The detail description of how the capping mechanism would work will be found in Appendix 4.

The Vancouver Charter amendments to implement option 2 should include the provision that Council will implement the details of the proposal by Bylaw. The primary details are the classes to which a cap is to apply for that year and the size of the cap for each class.

RECOMMENDATION:

That City Council seek amendments to the Vancouver Charter necessary to implement a "taxable value" capping mechanism as described in this report, applicable to all the taxes levied by the City for itself and for other taxing bodies, to be implemented, when needed, by Bylaw.

This section of the report indicates many of the matters that would have to be dealt with in the Charter amendments. City staff will undoubtedly think of others that will also have to be covered.

We have considered the question of whether the CAP mechanism should be applied to the business and other class under the 1989 circumstances and have concluded that it should not. In general we believe that the capping mechanism should only be applied to the residential class, and only when there are extreme increases in assessments over the average increase for the class in any one year. For the other classes we believe that there should be no intervention in the market forces and yet we recognize that Council may very well wish to apply the protective mechanism to the commercial sector for the same reason as it would apply it to the residential sector-- the unfairness of very large increases in one year. In any event, the City should have general powers in the Charter to apply the capping mechanism to any class so that if intervention is needed in the future, the legal authority will be available.

In normal circumstances the Director of Finance reports to Council at budget time that the total of assessed values is so many dollars, the budget approved by Council

requires a certain size of tax levy, and some simple arithmetic then produces the necessary tax rates to be approved by City Council. With the capping mechanism in place, or for that matter, an averaging mechanism, it will be necessary for staff to produce an artificial "taxable value" total for each affected class of property by a complete run of the assessment files through the computer. The final use of these "taxable values" to levy the property taxes must be absolutely solid in the legal sense. Council cannot afford to have any doubt about the validity of the tax levies.

4: Discussion Regarding Option 3— A Three Year Averaging Mechanism

While the Commission recommends Option 2, the averaging mechanism is also a valid approach. Five years is too long but three years would have a smoothing effect on changes in assessed value. As in option 2, it would require the use of and calculation each year of a TAXABLE VALUE that would be used to determine the tax rates.

The same rules regarding changes in improvements on the property, etc., would apply. We believe this would be significantly more difficult administratively than for option 2. The averaging mechanism requires the maintenance of more history on a property and this is a potential problem, given the rate of change in subdivisions, rezonings, developments, etc., affecting property in Vancouver.

The most significant drawback to using the averaging mechanism is that once in place, it would be difficult to eliminate. It is always wise to eliminate any unnecessary complexity when it is no longer required, such as in a period of market stability.

Whereas the capping mechanism would only apply to certain properties, the averaging mechanism would have to apply to all properties in a class. In addition, the averaging mechanism will in most cases have an impact every year, even when the rate of increase in the assessed value of a property does not warrant it. This implies a transfer of tax burden when none is warranted. The example in the next section illustrates this.

If the averaging mechanism is used, then at least in theory, over a long enough time, a property would probably pay the same total sum of taxes that it would pay if no system were in place, providing one ignores the time value of money. In contrast, the capping system may be thought to actually shift tax burden from one set of properties to another. However, if the market moves the other way, for example the east side realizes the large assessment increases, then the burden gets shifted back.

5: An Illustrated Comparison of Options 2 and 3

The following table provides the data for a sample property, through 17 assessment/taxation periods, with the two TAXABLE VALUE columns giving the effect of option 2 for the CAP and option 3 for the AVER.

The two graphs show the ASSESSED VALUE as the solid line and the TAXABLE VALUE as the dotted line. Reference to the table shows that the rate of increase in the assessed value of the property in periods 10 through 16 is not particularly severe (being less than the actual % increase minus the increase % for the class) and yet the averaging relieves the property of a fairly substantial burden. The reverse scenario of a long term slow decrease in property values seems much less likely but it would impose an extra burden on the sample property similar to the burden it is being relieved of in the example given.

TABLE OF DATA FOR THE EXAMPLE PROPERTY

PERIOD	AVERAGE ASSESSED VALUE INCREASE FOR THE CLASS %	ACTUAL PERCENT INCREASE ON THE EXAMPLE PROPERTY %	ASSESSED TAXABLE VALUE OF THE EXAMPLE PROPERTY \$	TAXABLE VALUE CAP	TAXABLE VALUE AVER
1			100,000		
2	5.0	5.0	105,000		
1989	35.5	80.0	189,000	163,275	131,333
4	30.0	80.0	340,200	244,913	211,400
5	-5.0	-25.0	255,150	255,150	261,450
6	-20.0	-35.0	165,848	165,848	253,733
7	0.0	1.0	167,506	167,506	196,168
8	1.0	0.0	167,506	167,506	166,953
9	1.0	1.0	169,181	169,181	168,064
10	5.0	15.0	194,558	194,558	177,082
11	5.0	15.0	223,742	223,742	195,827
12	5.0	15.0	257,303	257,303	225,201
13	5.0	15.0	295,899	295,899	258,981
14	5.0	17.0	346,201	346,201	299,801
15	1.0	1.0	349,663	349,663	330,558
16	1.0	1.0	353,160	353,160	349,675
17	1.0	1.0	356,692	356,692	353,172

The Commission feels strongly that the capping mechanism is preferable to the averaging mechanism, primarily on the basis that the averaging system is totally and permanently interventionist and the capping system is minimally interventionist, applying a remedy only where and when needed.

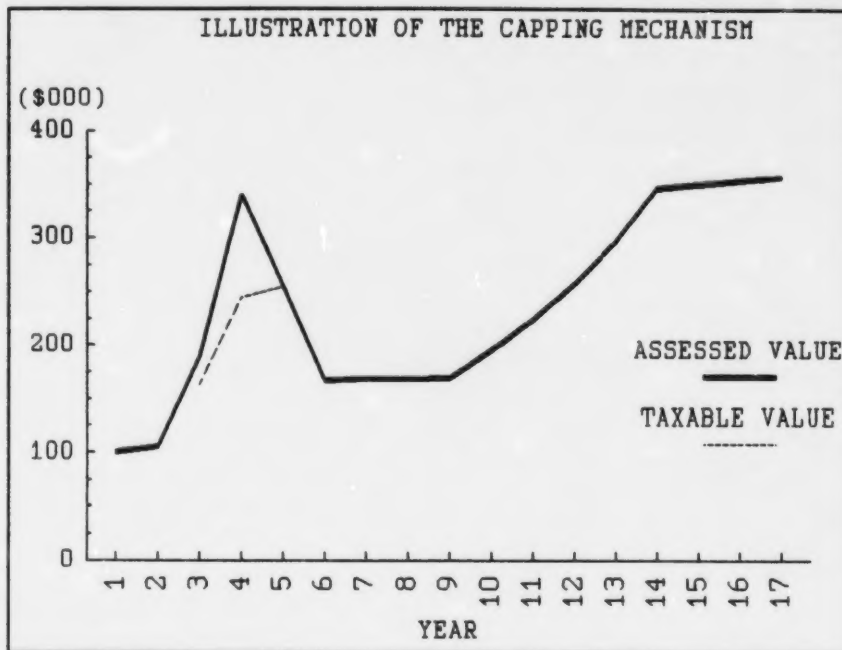


Figure 3

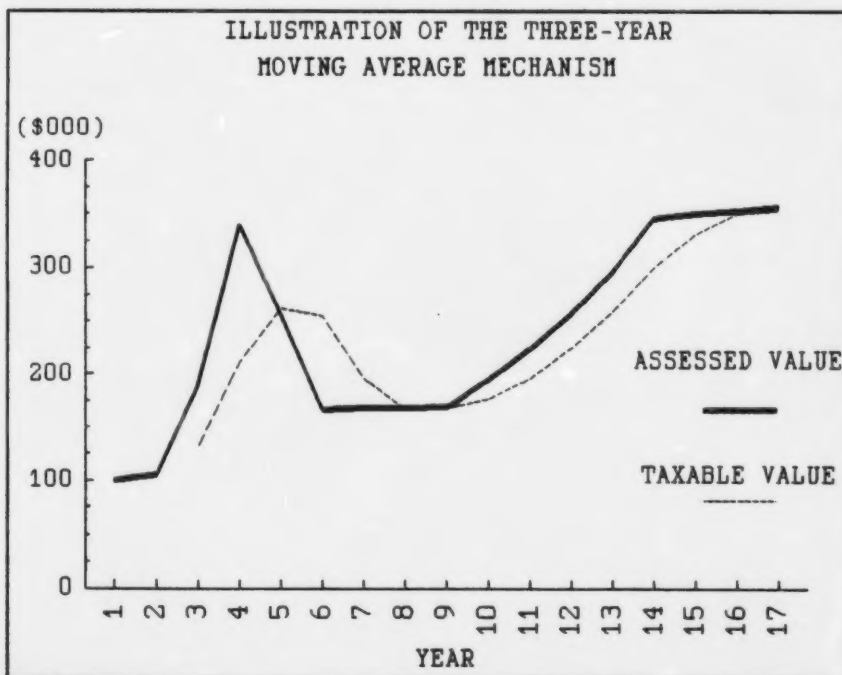


Figure 4

SECTION 11: CONCLUSIONS AND RECOMMENDATIONS (Part 2)

It is considered important, for a number of reasons, to reduce the City's dependence on the property tax and therefore the City's current revenue structure is examined in this section, as are alternative forms of taxation and new forms of taxation, the latter more from the point of view of controls on the real estate market rather than revenue.

A: Alternative Ways of Levying the Property Tax

During the public meetings, and by letters and other submissions, a number of alternative bases were suggested for the property tax, in substitution for the present market value base. These are listed in Appendix 1.

Most of the suggestions revolve around the ideas of using front footage or area of land, or size of improvements directly to levy taxes; services rendered to or consumed by the property and its occupants; a flat rate structure charged to all properties, or perhaps on a household unit basis; or equally to all residents (a poll tax).

None of these methods offer any improvement in equity, and some, such as the flat rate or the poll tax, are distinctly regressive. All of them present severe administration problems, and in some cases, enforcement problems. Nothing put before the Commission was persuasive in favour of any of the above alternatives. Using the measurements of land and/or improvements would seem to have little to do with ability to pay, value, or services consumed. The poll tax is very regressive and almost impossible to administer or enforce. Measuring services consumed, needed or demanded is essentially impossible.

B: Alternative Forms of Taxation

As indicated earlier, the City of Vancouver has no power to levy any form of non-property taxation. The senior governments reserve to themselves all other forms of

taxation. Historically, each level of government is loath to share that which belongs to it, with any lower level of government. This is particularly true in the relationship of Province to Municipality in Canada.

For many decades municipalities in Canada have sought access to the income tax and other economically sensitive forms of taxation, in an effort to broaden the municipal tax base and lessen dependence on the property tax. Finally, in the seventies, some provincial governments, including British Columbia, developed "revenue sharing" systems, that in most cases created pools of funds based on portions of the economically sensitive provincial revenues and then distributed these funds on a grant basis, both conditional and unconditional, to the municipalities.

The municipalities, at least in British Columbia, have no control over the structure of these grant "pools" nor over the distribution formulae. This can result in substantial shocks as government changes the rules for its own reasons. This is what makes the revenue sharing program an undependable source of funds for municipal government.

Given the historical attitude of the Provincial Government, it is unlikely that approaches by the City to the Province to obtain a share of the income tax or the sales tax, in order to reduce the burden of the property tax, is going to be immediately fruitful. Therefore, while Council may wish to pursue this approach, it should be on a long-term basis, and in fact, it must be done in conjunction with the Union of BC Municipalities. A single municipality making the approach is wasting its time.

Without looking for a particular response, the Commission asked a question at the public meetings that elicited a startling and cautionary response. Because of the nature of the response, some time was spent on discussion to make sure that the audiences were clear about the matter they were dealing with. The question boiled down to whether or not they felt local government should obtain access to an "ability to pay" source of revenue such as the income tax. The answer was an emphatic no! The Commission believes that the response was not so much against giving local levels of government better sources of revenue, as expressing a very negative feeling about the income tax. Council might wish to explore this response before taking further action

on trying to obtain access to the senior governments tax bases.

What it comes down to is that while Council may make policy decisions to pursue these "alternative forms of taxation", this will not solve the current situation and should not be seen as a solution.

C: Possible New Forms of Taxation Or Controls On the Real Estate Market

This section considers a number of significant other concerns brought up at the meetings, some of them related to the increase in taxpayers assessed values, in the sense that they are seen as a cause of the strong real estate market.

These concerns were:

- speculation
- foreign investment (buyers)
- big houses
- damage to the community structure
- illegal suites
- lack of affordable housing.

It is quite clear that the fast pace of change in Vancouver, and in particular in the residential neighbourhoods, is very disturbing to many people while of course many others may like it. Change can be traumatic and the one that seems to disturb citizens the most is to have a "monster house" built next door. The fact that this may, from a long-term point of view, be quite natural urban change, is no comfort to those affected. The fact that this use of urban land drives up the value of surrounding land is also no comfort to many people because they have not the slightest interest in realizing the increased value— they just wish to spend the rest of their lives undisturbed in their homes.

Those who suffer the most in the human sense are the senior citizens, most of whom have been in their homes for many years; have no desire to do anything but spend the rest of their lives in those homes and neighbourhoods; are distressed at what they

see as unattractive change in their neighbourhoods; are often, in today's real estate world, asset rich and income poor so that paying greatly increased taxes is a real burden; and are psychologically not the least bit comfortable using the Provincial Tax Deferment Program because it creates debt which they find abhorrent.

While senior citizens are perhaps least able to cope psychologically, there are many other, younger, homeowners who also find the situation both upsetting and a hardship financially. These are people who have been in their homes perhaps ten or fifteen years, but whose income has not risen in step with the economy, and certainly not with the real estate market. They lack the circuit breaker protection the senior citizens have in the tax deferment program, so they are finding the sharp increases in taxes a distinct problem. They do not wish to move any more than do the seniors.

One of the factors that suggests problems/backlash for the future is that too many people equate the speculation and big houses with Asian immigrants and the wealth they appear to be bringing to Vancouver "to buy up our homes". The Commission is of the opinion that the situation is far more complex than that simplistic explanation and suggest that Council may wish to initiate a broad study of the situation. The lack of facts and understanding can create a negative situation unwarranted in truth. In social situations of this nature it would seem important to have the facts, not hearsay and rumour.

The question of the prevalence of and problems with illegal suites was brought up by many speakers at the Trout Lake Community Centre, but Council already has this matter in hand.

The question of affordable housing is clearly beyond the terms of reference of the Commission, except in its relationship to speculation and its effect on market values. While the subject of "affordable housing" was quite specifically brought up at the Trout Lake Community Centre it was more likely to be mentioned at the other meetings in terms of "How will my children be able to buy a house in the neighbourhood where they were brought up?" and of course the answer is that they will not be able to. Other aspects raised at the public meetings were the lack of any increase in the homeowner grant since 1979 and the desirability of lowering the age of eligibility for

the Provincial tax deferment program from 65 to 60.

Clearly one of the demands from the public, to government (with general recognition that it has to be the Provincial government), is -- curb speculation! There are a number of mechanisms that City Council may wish to consider, all of which require Provincial action at the very least. These are:

1. Tax the capital gain from the sale of a residence that is not the principal residence. Such a tax would have to be a substantial percentage (60-80?) of the gain to discourage speculation and of course there would be no refund in the event of a capital loss. The disposal of a house that is part of the estate of a deceased person would be exempt and presumably there would be other legitimate types of exemptions. The tax would have to be Provincial and would require honest enforcement effort. Complications arise in considering cases such as those of a contractor whose livelihood consists of buying houses, doing major work on them and then selling them.
2. Minimum holding period for owning a residence that is not a principal residence. This is similar to 1. except that the speculator is forced to hold the property for some period (e.g. 2 years) that would alarm any speculator because it opens the possibility of a declining market. Failure to hold for the required length of time would result in the loss of any gain, and whether gain or loss, a substantial penalty.
3. Surcharge on the property tax of any residence owned by a non-resident. Non-resident means any owner who does not meet appropriate residency requirements (perhaps those of the income tax act). The surcharge would be substantial, say 50%. This would be enforced by the City and would require Provincial legislation, probably by Charter amendment. The Provincial government might or might not see this as something to be implemented across the province.
4. Do not allow non-resident ownership of homes (or perhaps of more than one home). Inasmuch as many of those who are buying homes have every intention of moving here and obtaining at least landed immigrant status, it would seem

inappropriate to bar the ownership of one house by non-residents.

5. Non-resident purchase tax on residences. Since this could be circumvented by establishing a company in Canada and having that company buy the residence, any house bought by a company (Land Registry Office detects) would automatically pay the tax unless it specifically proves Canadian ownership. The tax could be on the order of 25% of the purchase price of the house.

Although each member of the Commission has his own professional opinion on the above proposals, we do not believe we can provide solid advice to Council without an opportunity to gather and analyse the evidence-- a task which was beyond what could be achieved in the few weeks available to prepare this report.

D: A Review of the City's Revenues

Introduction

The City of Vancouver revenue system is both complex and narrow. It is complex in the sense that there are many different ways in which the City obtains revenues, and narrow in the sense that for a government, it has only one **taxation** element. Senior levels of government have both the overall complex array of revenues, and access to a number of different **taxation** bases.

There is a set of principles that defines a high quality revenue system. It considers such matters as diversity and balance of revenues, reliability, primarily in the sense of stability, equity and social justice, efficiency of administration, and accountability.

It is worthwhile examining the City's revenue structure against these principles, to see where problems may exist, and to determine if there are opportunities to reduce the City's dependence on the property tax. The property tax is the primary source of revenue for all municipalities in Canada, for historical reasons, and because the senior governments do not wish to share their other taxation systems with local governments. Reduced dependence on the property tax would improve diversity and balance, and may

improve the equity aspects of the distribution of municipal costs.

The Characteristics of a Good Revenue System

A good revenue system will have a diversity of revenue sources, particularly so that if one or some falter, for instance in times of economic decline, others can carry the burden, and balance, so that there is not undue or imprudent dependence on one revenue source. Every revenue source is unfair to some part of the constituency so that diversity and balance also enable the biases or negative characteristics of the revenue sources to offset each other. The progressive characteristics of one revenue source will hopefully counter the regressive aspects of another one.

Reliability of the revenue sources, particularly in the sense of stability, is critical in light of the expectation that municipal services will continue to be delivered even in times of economic decline. Reliability, in the sense of certainty, also allows the individual taxpayer to reasonably anticipate the future tax burden.

The principle of equity is much more difficult to deal with at the municipal level because of the restricted nature of a municipality's revenue sources and particularly because it must rely so heavily on one taxation source, that is based on wealth in property rather than ability to pay based on income. The question of equity is discussed at greater length in Section 10:B: of this report.

Several principles apply to the administration of the various elements of the revenue system. These are clarity, so that the taxpayer is able to understand the basis of assessment for taxation; the grounds on which the assessment can be appealed; the process of appeal; and the method of calculation of the tax based on the assessment.

Failure in this area tends to discriminate against the ignorant and the poor, who cannot afford the expertise to take advantage of the complexity of the taxation system. Continuity means that the taxation system should only be changed for good reason. The taxation system should be cost-effective, that is, efficient in assessing, collecting, and control. Convenience means that the payment of taxes should cause the taxpayer as little inconvenience as possible.

Finally, the concept or principle of **accountability** is critical to a good revenue system. This means that taxation policy must not be hidden; it must be explicit, to be clearly seen by all concerned. It is far too easy to hide what are clearly taxation policy considerations in the assessing aspects of levying property taxes.

The Structure of the City's Existing Revenues

The following table shows the City's revenues, as a percent of the total, for the years 1984 to 1987.

City of Vancouver Revenues
as a Percent of Total Revenues
1984 to 1987

<u>Revenues</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Taxation	68.5	66.0	66.1	65.3
Provincial grants	5.7	5.2	5.1	5.0
Sales of goods/services	11.2	11.4	12.1	12.5
Return on assets	9.4	12.1	11.2	10.6
Permissions/inspections	3.5	3.4	3.3	3.5
Fines	1.3	1.4	1.5	1.4
Miscellaneous	.4	.6	.7	1.7
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(Note: Appendix 2 lists the specific revenues in the categories used in the table.)

The City's Property Taxation System

The City's revenue system does not meet the requirements for satisfying the principles of diversity and balance. Two-thirds of the City's revenues come from a single source, the property tax. The nature of the property tax is such that it meets the requirement for stability, as it does not falter as a revenue source for the City

during an economic downturn. However, it is not based on income, and can become much more of a burden on the taxpayers during such a period. This has always been treated as a serious matter by City Council and every effort is made to decrease the impact of the property tax burden in recessions. However, there is no other revenue source that can take up the slack at such times. Taxpayers generally expect a continuation of the same level of service so there are serious conflicts that must be resolved at such times.

The property tax has in the past usually met the requirement for certainty, in that taxpayers have generally been able to anticipate that the next years tax burden will approximate the previous year plus perhaps an inflationary adjustment. However, 1989 has destroyed that sense of certainty for a great many taxpayers.

On the principle of accountability, the property tax in Vancouver, and in B.C. generally, achieves high marks, which is seldom the case in other jurisdictions in North America. The nature of the market value assessment system used in Vancouver does not allow local government taxation policy to be hidden within it. Taxation policy is explicit and subject to review every year when City Council considers the budget.

The real property assessment and taxation systems in Vancouver are well administered, subject to the earlier recommendations regarding the BC Assessment Authority. The primary administrative aspect pertinent to the Commission's terms of reference is the question of clarity. Compared to almost all real property assessment and taxation systems we are aware of, the Vancouver (in fact, B.C.) system is a model of clarity. The assessment is something quite simple, the current market value, therefore easily understood by the property owner, and the grounds for appeal are equally simple - the property is either assessed at market or it is not. In very few other jurisdictions do the property owners have any chance of understanding their assessment short of hiring an appraisal expert. If property owners cannot understand their assessment, they have little or no chance of successfully appealing it.

The City has no power to tap other sources of taxation, such as the income tax, sales tax, or payroll taxes, and could not afford to even if it had the power, unless the other surrounding municipalities followed suit. It is considered unlikely in the

extreme that the senior governments have any interest in opening these fields of taxation to the municipal level. The Province takes the position that it already shares these "economically sensitive" revenues with the municipalities through the Revenue Sharing Program, but the content of the revenue sharing "pot" and the distributional formula are completely under the control of the Province, not the municipalities. In no sense can the Provincial revenue sharing grants to the City be considered to aid in the achievement of **diversity and balance**, and historically the grants have badly failed the test of **stability**.

The City As a Seller of Goods and Services

The City is a major seller of goods and services, with revenues reaching \$43 million in 1987, or one-eighth of the total. There are multi-faceted considerations in the selling of goods and services by a municipality. Should certain services, say recreation services, be subsidized from the property tax levy, therefore serving a re-distributive function? Should it make a profit, as is often the case with municipal utilities, so the property tax burden can be lessened? Should it exactly recover the costs of the goods or services so that the user pays fully for the benefits the user realizes? All are legitimately applicable, and are a matter of policy under the best circumstances and a matter of accident or neglect under other circumstances.

In theory, a municipality could provide all these goods and services free to the citizens, and support the cost of doing so through the property tax levy. Other than probably leading to serious inefficiencies and profligacy, it would also reduce **diversity and balance**. By charging properly for these goods and services, it is also much easier to reduce the costs of the functions when demand decreases in a recession. **Equity** can be served by a variable scale of prices for particular goods or services (commonly in the recreation area).

It is thought that there is an incentive to cost-efficiency if municipal services are delivered on a user pay basis, particularly at the level of full cost recovery. Many municipal services are monopolistic in nature and if priced on a full cost recovery basis in the marketplace will attract unwelcome attention and perhaps competition if they are not run efficiently. In other words, market-based indicators of demand will

exercise a control function.

Generally speaking, the City of Vancouver has had a philosophy of recovering its costs in areas such as the solid waste collection and disposal service, waterworks, and permit fees, but not in the provision of recreation and cultural services. Depending on how one wishes to price the provision of on-street parking, the City can be said to make a profit from parking meters. The City makes a large profit from the provision of off-street parking but these profits are allocated to the provision of further off-street parking. All of these revenues are subject to reasonable periodic review by City Council and the existing structure of charges can be said to reflect policy judgments.

The pertinence of these measures is that anything that **reasonably** increases the revenues from the sale of goods and services will decrease the burden of the property tax. A problem would arise if the new charges are seen as unfairly regressive, and this would therefore have to be a serious policy consideration at the time any changes are examined.

While City Council can keep these considerations in mind when reviewing the periodic reports from staff on fee structures, only major changes will have any significant impact on the property tax. The three possibilities that could be considered by Council are as follows:

1. Recreation Services

Previous studies by staff have shown that the recreation services provided by the City fall well short of cost recovery. The current degree of shortfall has not been determined by the Commission, but is believed to be substantial. The serious problem with bringing the charges for these services up to full cost recovery is that it is likely to be regressive in the larger sense. Further study would be needed for Council to consider this matter on a policy basis.

2. Waterworks Utility

City Council has previously rejected the concept of using the waterworks utility as a profit making enterprise, rather than the present basis of cost recovery. However, if reducing the burden of the property tax is a serious objective because of uncontrollable fluctuations in the real estate market, then this is a fruitful area for further consideration. By any standards the present cost of water in Vancouver is not expensive.

3. Sewers Utility

The full cost of the sewers function in Vancouver is covered by the property tax levy and miscellaneous revenues of the City. Unlike most municipalities, there is no specific charge for sewer service, either billed separately from the property tax bill or shown as a separate item on that bill.

The sewers function in Vancouver cost \$25 million in 1988. This is equal to 12% of the 1988 property tax levy. As in the case of the waterworks utility, a system of utility charges for sewers could quite reasonably reflect the cost of providing that service to taxpayers, and it would not fluctuate other than as Council directed.

RECOMMENDATION:

That Council consider the establishment of the sewers function as a full cost recovery utility, with the costs distributed through a system of user charges.

The City As a Licensing/Approving Authority

Any business wishing to operate in Vancouver is expected to have a business license issued by the City. Anyone wishing to build or make modifications to a structure in Vancouver is expected to take out the appropriate permit and have the work inspected to make sure it meets the requirements of the applicable City bylaws. In sum, the City is engaged in a major function of control over what may happen in the

City. The reason is, in essence, to protect people. For quite some time, the City has with some exceptions dealt with these functions on a cost recovery basis. There is no reasonable basis to believe that the City should make a profit from the provision of these services. Other than maintaining the concept of cost recovery (plus one element of profit in the licensing function) the Commission has no suggestions.

The Return On City Assets, As a Revenue

An important part of the City's revenues arise as a return on assets the City has accumulated over many decades, or from cash management. These revenues fluctuate around 10-12% of total revenues and consist of short term interest income, rentals and taxes from City-owned property, and transfers from asset funds such as the Property Endowment Fund and the Sinking Fund. They reflect the financial strength of the City, and are positive from the diversity and balance point of view, but they do not add to the stability of the City's revenues, as a large portion of the total is sensitive to interest rates and the economy.

There is little or no scope for reducing the property tax burden in this set of revenues.

City Revenues From Fines and Miscellaneous

As can be seen in the table, these items are minor and do not offer any scope for imaginative action.

Other Possibilities— Desirable But Improbable

The Senior Governments response to the municipal sector's attempts to expand its tax base, by access to the income tax and the sales tax (or a VAT), has been intransigent. At stake is municipal autonomy and independence and as a consequence, a greater sharing of government powers.

From the municipal point of view, access to at least the income tax base is important, in that it would improve the diversity and balance aspects of the municipal

tax base, as well as improve the equity characteristics of the overall municipal revenue system. Administrative costs should be essentially nil. From the Province's point of view, it would reduce the Provincial ability to tap the same base, thereby reducing Provincial flexibility and Provincial control over the municipalities. While the present revenue sharing program provides a very small proportion of the City of Vancouver revenues (5%), this is not true of most other municipalities in B.C. In fact, most municipalities in Canada are significantly dependent on Provincial grants, both conditional and unconditional.

It is extremely unlikely that any access to Provincial tax bases such as the income tax can be obtained short of major constitutional change in Canada, and therefore while Council could initiate requests for such access, this should not be depended upon to solve the immediate problem.

Further Possibilities

From the above it can be seen that there is little flexibility for municipalities in British Columbia to expand their revenues. Essentially all change must be approved by senior governments, usually by legislation, and usually with reluctance.

By comparison, California municipalities might be thought to be in an enviable position. They have used a mixture of transient lodging taxes, utility users taxes, construction taxes, payroll taxes, parking taxes, franchise fees, etc. to replace some of the property tax revenue lost to Proposition 13. Whether this has resulted in a more equitable taxation system is an open question.

There is little of substance here for reducing the City's dependence on the property tax. The largest possibility is the creation of the self-funding sewer utility. The next largest possibility is to again try to persuade the senior governments and their crown corporations to pay full grants in lieu of property taxes. This would be worth some millions of dollars per year to the City.

Lastly, the City could try again to persuade the Provincial Government to assume its proper share of the cost of the justice/courts/police system. It is difficult to

think of any other expenditure sector where the City is seen to be paying for a Provincial service responsibility. In the larger sense of helping the real property taxpayers to the maximum extent, the school funding situation is iniquitous. It is also a prime example of how difficult it is politically (and in this case financially) to correct a system that has been allowed by government to deteriorate. However, the GVRD Board is making approaches to the Government on this subject.

REFERENCES AND NOTES

1. This summation was provided by Mr. John Mulberry ,the Director of Legal Services for the City of Vancouver.
2. This section is summarized from G.J. Reid and D.R. Winkler, **Fiscal Limits and Government Finance**, being Chap 2, and R.S. Phillips, **Restoring Property Tax Equity**, being Chap 7, J. Kirlin and D.R. Winkler , **California Policy Choices**, vol. 4, USC School of Public Administration, 1988.
3. R.M. Bird and E. Slack, **Can Property Taxes Be Reformed? - Reflections On the Ontario Experience**, Canadian Public Administration, vol. 24, no. 3, 1981, p. 469ff.
4. Report No. 19 of the Metropolitan Executive Committee, re a report of the Metropolitan Toronto Advisory Task Force On Assessment Reform, June 24, 1986.
5. Report No. 6 of the Metropolitan Executive Committee, March 29, 1988, on the matter of Market Value Reassessment.
6. Council Meeting Minutes, Dec. 2, 1987, attached documents, and Brief from the Citizens Committee For Property Tax Equity, dated Oct 21, 1987.
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APPENDICES

Appendix 1: Summary of Ideas Submitted by Letter and at the Public Meetings.

Appendix 2: City of Vancouver Revenues 1984 to 1987.

Appendix 3: BCAA Median Assessment Sales Ratios.

Appendix 4: Capping Mechanism Procedure Detail

APPENDIX 1: SUMMARY OF IDEAS SUBMITTED BY LETTER AND AT THE PUBLIC MEETINGS

Number	Expression of Idea	Comment
<u>Group 1:</u>		
1.	Use 1987 assessments as baseline for 1989 taxes, thereafter <u>increase</u> by CPI or increased cost of municipal gov't. Re-assess to full market value on sale of property, then increase formula applies until sold again.	
2.	Use 1987 assessments for 1989 and future taxes. Re-assess to full market value on sale of property.	Apparently no annual adjustment.
2A.	Use 1988 land assessments and 1989 improvements assessments for 1989 tax calculation. In future years tax improvements at a much higher ratio than land.	
3.	Increase the (1989 over 1988?) assessed value by the average for similar properties in the City. On sale the value would jump to the then current market value.	
3A.	Tax properties at the actual assessment increase, up to a cap equal to the average assessment increase, except for those properties that are sold, which would be subject to the full increase.	
4.	Current assessment should be the average of 5 years, including the current year. On new houses the starting point would be the average of the builder's cost and the actual sale price.	
4A.	Current assessment should be average of assessed values for 1979-88, this becoming Base Tax Value. Thereafter increase by CPI. Reassess on sale.	
5.	Arbitrarily adjust assessment increases in 1989 to a level that eliminates the top high and low sales in any given area. In addition, put a 20% limit on assessment increases.	

6. On residential property that has not changed hands during the year, restrict assessment increases to 10, 15, or 20%. Assessed value goes to full market on sale.
7. Tax new homes at market value. Restrict increase on older homes to 10%.

Group 2:

8. Limit tax increases to the CPI.
9. Limit increases in property values to the CPI. Provide protection (?) on basis of length of ownership. Not clear if protection for length of residence.
10. If own home less than 10 years, tax on full market value; if more than 10, freeze assessment at the 10 year mark and increase only by CPI.
11. Establish average values over an appropriate span of years to be current value, then increase yearly by the CPI.

Group 3:

12. Sliding scale tax rate, decreasing as the assessed value gets higher. This is regressive.

Group 4:

13. Standard basic tax (flat rate) per property across the city + tax based on square footage of home + (perhaps) tax based on square footage of property.
14. Use combination of a flat rate (user pay) per property (perhaps graduated) + tax based on 'ability to pay'. Presumably the income tax.
15. Distribute taxes on basis of services to land (square foot basis) + services to improvements. Should also use services to people for a portion.
16. Use developed footage of house much more in determining value. Doesn't work.
17. Assessment should reflect size of lot and age of house.

Group 5:

- 18. Tax on basis of cost of supplying City services and performing City functions with respect to each property.
- 19. Link assessment to actual annual increase in cost of operating the City.
- 20. Spread City's costs equally across all City residents.

Group 6:

- 21. Property tax credit of 1% for citizens for each year exceeding 10 years of residence (presumably in same house?), and must not have an illegal suite.
Same discount (?) for senior citizens who have another living in their household. Impossible to administer.
- 22. Assessments should reflect each owners need and financial status. Ability to pay system?

Group 7:

- 23. Average the homeowners property values for all the years of his/her ownership. This average becomes the current year assessed value. Data does not exist.
- 24. Reduce taxes for individuals who:
 - a) pass a means test
 - b) sign a bond that they do not intend to sell except due to ill health
 - c) other compelling circumstances.
- 25. Base taxes on the value of the house rather than the land. Value not determinable.
- 26. Base taxes on value of improvements made to the property in the previous three years.
- 27. Put increased taxes on owners of new big houses.
- 28. Homes with illegal suites, or not kept in good repair, and homes in new areas, should pay more taxes; and older homes should pay less taxes.
- 29. More tax on extra(?) residents. Illegal suites?

30. Increase the Home-owner Grant.

Provincial.

31. Penalize speculation

APPENDIX 2:

CITY OF VANCOUVER REVENUES 1984 TO 1987

Types of revenues

Sale of goods and services	SGS
User charges	UC (not used)
Permissions and inspections	PI
Fines	F
Return on assets	RA
Miscellaneous	M

Revenues		1984 (\$000)	1985 (\$000)	1986 (\$000)	1987 (\$000)	1984 %	1985 %	1986 %	1987 %
General tax levy	TAX	153,038	172,993	186,533	198,512	54.6	56.6	57.3	57.6
Receipts in lieu of taxes	TAX	17,405	18,711	18,133	17,355	6.2	6.1	5.6	5.0
Penalties and interest	TAX	4,408	4,888	4,782	4,301	1.6	1.6	1.5	1.2
Local imorvt taxes	TAX	4,770	4,823	4,893	4,995	1.7	1.6	1.5	1.4
Business taxes	TAX	12,543	0	0	0	4.5	0.0	0.0	0.0
	*					68.5	66.0	66.1	65.3
Prov govt revenue sharing	PRO	15,929	15,765	16,477	17,373	5.7	5.2	5.1	5.0
	*					5.7	5.2	5.1	5.0
Scavenging fees	SGS	3,747	4,043	5,345	5,721	1.3	1.3	1.6	1.7
Recreation and comm services	SGS	12,943	14,418	16,282	17,948	4.6	4.7	5.0	5.2
Parking meter revenue	SGS	1,764	1,842	1,839	2,099	0.6	0.6	0.6	0.6
Waterworks	SGS	13,057	14,541	15,857	17,396	4.7	4.8	4.9	5.0
	*					11.2	11.4	12.1	12.5
Service and inspect fees	PI	4,769	4,977	5,176	6,387	1.7	1.6	1.6	1.9
Sundry licenses	PI	4,925	5,291	5,685	5,845	1.8	1.7	1.8	1.7
	*					3.5	3.4	3.3	3.5
Municipal bylaw fines	F	3,616	4,374	4,722	4,809	1.3	1.4	1.5	1.4
	*					1.3	1.4	1.5	1.4
Interest on short-term invest	RA	12,702	11,074	9,319	10,838	4.5	3.6	2.9	3.1
Rentals, leases, taxes in lieu	RA	8,033	8,705	9,551	9,964	2.9	2.9	2.9	2.9
Property Endowment Fund	RA	5,339	7,825	10,436	9,000	1.9	2.6	3.2	2.6
Revenue surplus	RA	236	3,225	0	800	0.1	1.1	0.0	0.2
Sinking fund surplus	RA	0	3,608	5,248	4,320	0.0	1.2	1.6	1.3
US premium liability reserve	RA	0	2,478	1,845	1,523	0.0	0.8	0.6	0.4
	*					9.4	12.1	11.2	10.6
Miscellaneous	M	1,232	1,808	2,367	5,691	0.4	0.6	0.7	1.7
	*					0.4	0.6	0.7	1.7
Total		280,456	305,389	324,490	344,877	100.0	100.0	100.0	100.0
Transfers from reserves (mostly res. for encumbrances)		2,991	1,192	3,228	4,303				
		283,447	306,581	327,718	349,180				

APPENDIX 3: BCAA MEDIAN ASSESSMENT SALES RATIOS

(Provided by the BC Assessment Authority)

NO.	NEIGHBOURHOOD	87/88 ROLL	89/90 ROLL	COEFFICIENT OF DISPERSION 1989/90
1	Point Grey	89.0	92.0	10.2
2	Kitsilano	90.0	91.0	7.9
3	Dunbar	87.0	90.0	7.9
4	Arbutus	90.0	88.0	8.6
5	Kerrisdale	87.0	92.0	12.7
6	Southlands	93.0	95.0	13.1
7	Fairview	90.0	92.0	6.8
8	Shaugnessy	92.0	90.0	10.5
9	Cambie	90.0	92.0	10.1
10	South Granville	91.0	92.5	10.8
11	Oakridge	93.0	95.0	8.0
12	Marpole	92.0	91.0	7.4
13	Mt. Pleasant North	88.0	93.5	7.6
14	Grandview	89.0	90.0	11.1
15	Mt. Pleasant South	87.0	88.0	10.5
16	Main/Fraser	90.0	89.5	8.7
17	South Vancouver	93.0	95.0	7.9
18	Marine Drive	92.5	92.5	4.4
19	Knight	92.0	91.5	7.1
20	Hastings East	94.0	94.0	12.9
21	Renfrew	91.0	92.0	11.4
22	Renfrew Heights	93.0	94.0	8.0
23	Collingwood	91.0	92.0	9.4
24	Killarney	89.0	91.5	9.3
25	Fraserview	89.0	89.0	8.3
	Stratas		91.0	6.9
	All City	90.0	91.0	9.9

APPENDIX 4: CAPPING MECHANISM PROCEDURE DETAIL

In its first year of operation, the capping mechanism would be quite simple and would have the desired effect of limiting extreme increases in the property taxes for individual residential properties. It becomes more complex if the market continues its disproportionate characteristics but the mechanism continues to limit the excessive increases in taxes on individual properties.

The mechanism also deals with the situation where, in a declining market, a property that has been benefitting from the capping mechanism and is not paying taxes on the full assessed value, has some catching up to do before its taxable value may come down. In other words, every property must quickly return to where it fairly belongs, namely assessed value, when the market reverses and values drop.

The following chart illustrates some combinations of average increase in assessed values for a class [AVER%], shown as A, coupled with the actual percent increase in market (assessed) value, over the previous years market value, for an individual property [ACTUAL%], shown as B, plus a cap margin [MARGIN] chosen by Council to suit the particular circumstances (with 20% used for example purposes throughout this description). The round symbol indicates the percent increase [ALLOW%] to be applied to the TAXABLE VALUE of the previous year to arrive at the taxable value for the current year. The percent increase will be equal to either $A+20\%$ or B. The taxable value for the year may or may not be the same as the ASSESSED VALUE (the market value determined by the BC Assessment Authority).

There are actually only three relationships between the ACTUAL% and the AVER% with its capping margin. ACTUAL% can be less than AVER%, or between it and the capping margin, or be higher than AVER% plus the capping margin. This gives rise to two preliminary rules for the primary algorithm.

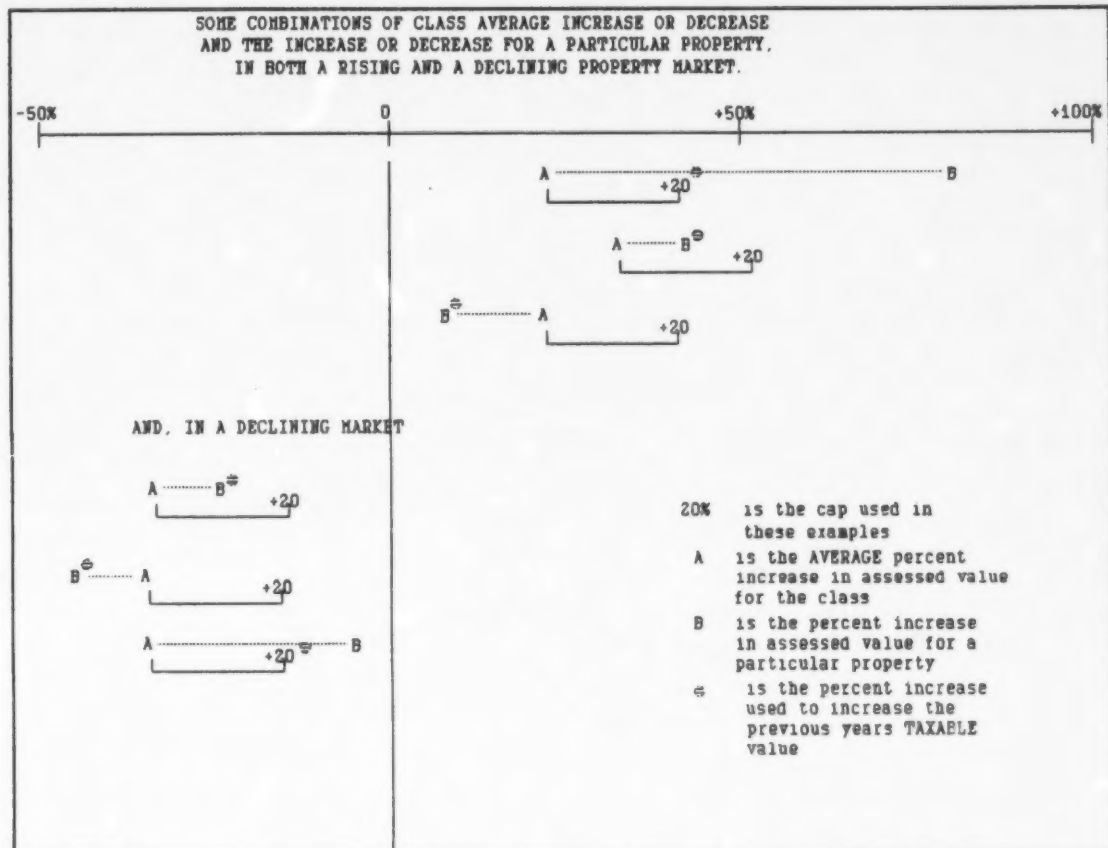


Figure 5

Rule 1: $\text{ALLOW\%} = \text{ACTUAL\%}$ if $\text{ACTUAL\%}$ is less than $\text{AVER\%} + \text{MARGIN}$

Rule 2: $\text{ALLOW\%} = \text{AVER\%} + \text{MARGIN}$ if $\text{ACTUAL\%}$ is greater than $\text{AVER\%} + \text{MARGIN}$

The diagram is more complicated than is necessary to illustrate preliminary rules 1 and 2 in order to visualise problems generated when markets go down. If a property has an untaxed portion of assessed value from the prior year (in other words, in the previous year the owner did not pay tax on the full assessed value) then in a situation where the property declines in assessed value, the owner may not be entitled to the full decrease in value that would be implied by the simple application of rules 1 and 2.

There are two ways of constructing algorithms to calculate taxable value each year. The first modifies rules 1 and 2 and determines the percentage increase or decrease allowed for the year, to be applied to the taxable value of the previous year. The second method deals directly with a comparison of the current year assessed value to the previous year taxable value increased by the average percent increase in assessed value for the class of property plus the capping margin approved by Council.

City staff need to satisfy themselves that both algorithms are valid and determine which they prefer to use, probably based primarily on understandability.

METHOD 1:

Rules 1 and 2 are modified to adjust for the situation where the property market declines and the property owner may not be immediately entitled to the full decline in the assessed value of the property because he has been benefitting from the capping mechanism. The modification creates a single rule, as follows:

Rule: $ALLOW\% = AVER\% + MARGIN$ if $ACTUAL\%$ is greater than $AVER\% + MARGIN$;

if $ACTUAL\%$ is less than $AVER\% + MARGIN$,
then,

if $TAXABLE\ VALUE_{PRIOR\ YEAR} \times \frac{100\% + AVER\% + MARGIN}{100}$ is less than

ASSESSED VALUE, then

$ALLOW\% = AVER\% + MARGIN$,

otherwise,

$ALLOW\% = \frac{ASSESSED\ VALUE - TAXABLE\ VALUE_{PRIOR\ YEAR}}{TAXABLE\ VALUE_{PRIOR\ YEAR}} \times 100$

To explain the above logic in words, if the actual percent increase in the assessed value of the property is greater than the sum of the average percent increase of assessed values for the class plus the capping margin (20% capping margin used in the examples), then the maximum percent increase ($ALLOW\%$) applied to the property for that year is the sum of the class percent increase plus the capping margin. This is the capping mechanism applying protection against excessive tax increases.

Note that ~~while~~ the comparisons and percent increases are determined using the ASSESSED VALUE, the ALLOW% increase applied to the property is applied to the TAXABLE VALUE_{PRIOR YEAR} to determine the TAXABLE VALUE for the current year.

If the actual percent increase in the **assessed** value of the property is less than the sum of the average percent increase of assessed values for the class plus the capping margin, then two different factors have to be examined in order to properly deal with those cases where in the previous year the property was not paying taxes on the full **assessed** value because the capping mechanism had held back the increase.

First, the taxable value of the prior year is compared to the current years **assessed** value increased by the sum of the average increase for the class plus the capping margin. Keep in mind that the latter can be a negative number if the market is declining. If the prior year taxable value thus multiplied is less than the **assessed** value, it means that the property has benefitted from the capping mechanism at least in the previous year, and at least for the current year still has some catching up to do. Therefore, the ALLOW% is set at the average for the class plus the capping margin.

If the comparison shows that the prior year taxable value thus increased is greater than the assessed value, then the ALLOW% percent cannot be the class increase percent plus the capping margin but has to be a number that brings the taxable value to the same amount as the **assessed** value. The ALLOW% in this case must be somewhere between the class increase percent plus the capping margin and the ACTUAL% increase in the assessed value of the property. That number is determined as the percent that will bring the prior year taxable value to the current year assessed value.

METHOD 2:

The second method looks directly at the taxable value of the previous year, increases it by the maximum allowed under the capping scheme, which is the sum of the average increase in assessed value for the class plus the capping margin approved by Council. If this amount is less than the actual **assessed** value for the property for that year, then the increase limit has been exceeded for the year. In such case we do not use the assessed value but use the lesser calculated value. If the assessed value is less than the allowable upper limit then of course the assessed value is the

applicable value for the year, because in any year the value for taxation can never exceed the assessed value. This logic also deals correctly with the value determination in a declining market.

For the first year of application of this method the ~~assessed~~ value of the previous year is considered equal to the taxable value of the previous year.

The logic is expressed as:

TAXABLE VALUE_{CURRENT YEAR} is the lesser of ASSESSED VALUE_{CURRENT YEAR} or
the TAXABLE VALUE_{PRIOR YEAR} times $\frac{100\% + \text{AVER}\% + \text{MARGIN}}{100}$